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Capital Access Program

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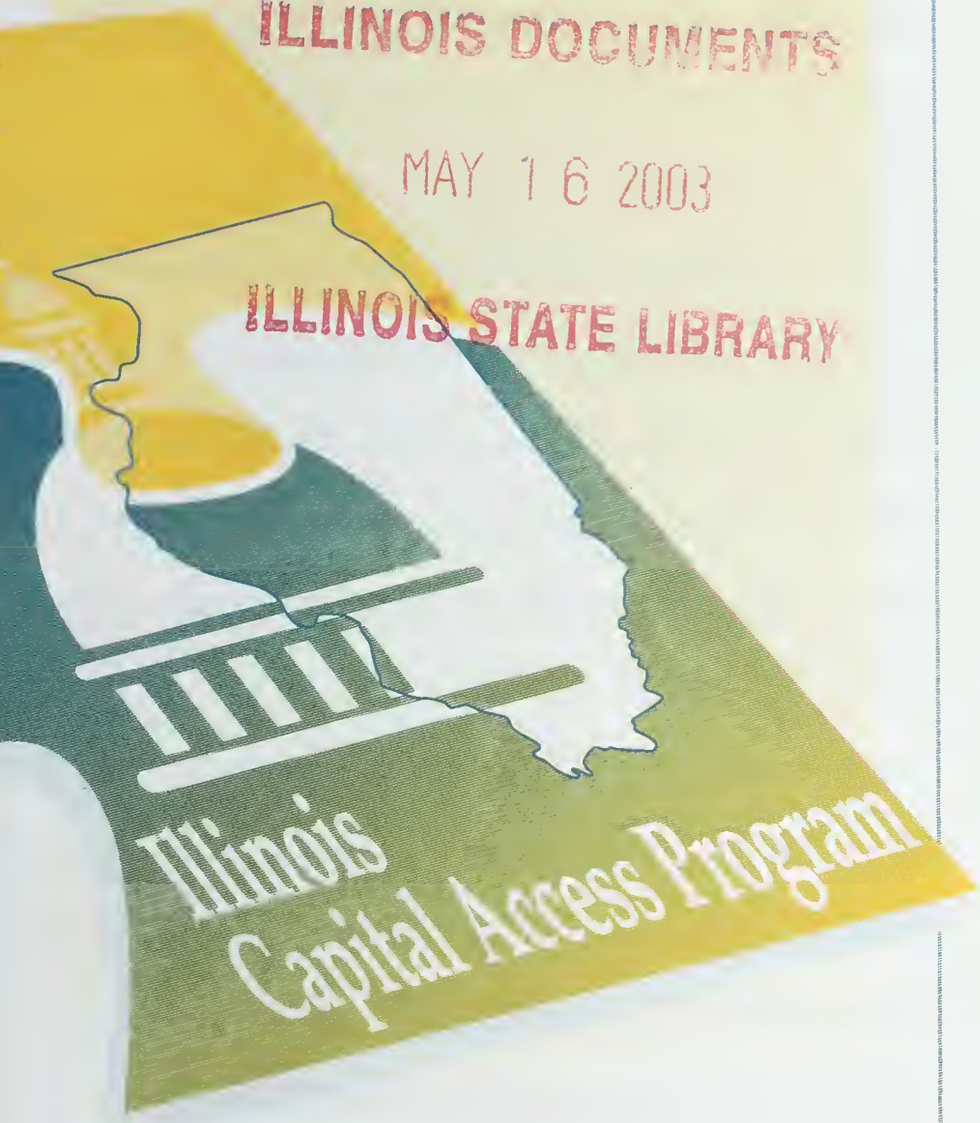

Rod R. Blagojevich, *Governor*
Jack Lavin, *Director*

The Illinois Capital Access Program – CAP – is designed to encourage lending institutions to make loans to new and small businesses that do not qualify under conventional lending policies. CAP is a form of loan portfolio insurance which provides coverage to the lender on loan defaults. By participating in CAP, lenders have available to them a proven financing mechanism to meet the financing needs of Illinois' small businesses.

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How The Program Works

The Capital Access Program (CAP) is based on a unique portfolio insurance concept where the borrower and the Illinois Department of Commerce and Economic Opportunity (DCEO) each contribute a percentage of the total loan amount into a reserve fund to cover loan losses. This reserve fund enables the financial institution to make loans beyond its conventional risk threshold. Each time a loan is enrolled under CAP, a one-time fee is paid by the borrower (between 3 percent and 7 percent of the total loan amount) and DCEO matches that amount dollar for dollar. For instance, if the borrower pays 3 percent, DCEO pays 3 percent and for this one loan, 6 percent is added to the lender's loan loss reserve fund account for its entire CAP portfolio. The more loans a lender makes, the larger the reserve fund grows, enabling the lender to make even riskier loans with this "insurance" coverage being provided.

The Loan Loss Reserve Fund

Over time, as more and more loans are enrolled, a lender's loan loss reserve account will grow substantially. For example, if a lender makes 10 small business loans totaling $500,000, the lender's loan loss reserve fund will total anywhere from 6 percent to 14 percent or $30,000 to $70,000 respectively. This reserve account will provide 6 percent to 14 percent loss coverage on a portfolio of loans that will likely experience less than a 4 percent loss. Additional coverage will be provided through a higher percentage match (133 percent) on early loans (any loan the lender makes where the aggregate amount of all enrolled loans is less than $2 million). When a loan defaults, the lender simply fills out a one-page claim form. If a recovery is made by the lender on a loss which has been reimbursed, it must be returned to the reserve fund account, less half of the allowable collection expenses.

Eligibility

The business enterprise receiving a loan under CAP must:

- Be a for-profit business
- Be located in Illinois
- Have 500 employees or less

With few exceptions, most business loans are eligible under the program. All lending criteria including the terms, rates, fees, collateral, conditions, etc. are decided by the individual lender. The financial institution simply enrolls the loan with DCEO. It is an enrollment process rather than an approval process.

Advantages

- Provides the borrower with access to financing that otherwise would not be available
- Lines of credit are eligible
- Expands the lender's customer base and increases commercial loan volume
- Gives the lender total flexibility in loan decision-making
- May provide 100 percent coverage on certain loan defaults

Terms

The maximum loan amount under the program is $100,000. The loan is a private market transaction between the lender and the borrower. **The lender determines which loans are best suited for enrollment in CAP.** The lender is responsible for setting all the terms and conditions of the loan, including the percentage of the one-time non-refundable fee paid by the borrower.

Loans can have fixed or variable interest rates, be secured or unsecured, be short-term or long-term and carry any type of amortization schedule.

Special Incentives

All early loans will receive additional coverage through a higher match of 133 percent. Special incentives will also be provided through a higher match to lenders who provide financing to the following:

- Minority, Women and Disabled-Owned Businesses (150 percent match)
- Businesses located in a **Federally Designated** Empowerment Zone or Enterprise Community (200 percent match)

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For more information, please contact:

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